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Approved by:

Suzanne E. Heinen

U.S. Embassy Mexico City

Prepared by:

Benjamin Juárez/Sal Trejo

Report Highlights:

Total corn imports in MY 2005/06 are forecast to increase to 5.9 MMT, 500,000 MT higher than in MY 2004/05 reflecting stronger demand for feed; similarly sorghum imports are forecast to increase 14 percent due to the lower domestic crop. Mexico's dry edible bean imports in MY 2005/06, however, are forecast to remain the same as MY 2004/05, due to continued good crop condition. For MY 2005/06 corn production is expected to decline approximately 1.8 percent from last year's bumper harvest. Production of dry beans for MY 2005/06 is expected to increase slightly from the previous estimate of 582,000 MT, while sorghum production is forecast to decline from MY 2004/05. Total Mexican wheat production for MY 2005/06 (Jul-Jun) is forecast at 3.2 million metric tons due to heavy rainfall late last year and the early part of the current year allowing for sufficient waterflow into the water reservoirs in the principle durum wheat producing state of Sonora, and the return to normal rainfall patterns in the bread wheat producing states of the central plateau in Mexico. Mexico's rice output for MY 2005/06 is forecast to remain unchanged from the previous year's revised estimate of 200,000 MT (milled), because much of the rice producing lands in Veracruz and Campeche were left idle once again due to excessively competitive imports and insufficient government support.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Mexico [MX1]
[MX]

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SECTION I. SITUATION AND OUTLOOK**Corn**

For marketing year 2005/06 (Oct-Sep), the initial forecast of total Mexican corn production is 21.6 MMT. The main reason for this slight decline is a decrease in harvested area. After two years of excellent weather conditions it is estimated that the harvested area could be reduced slightly in MY 2005/06 reflecting a return to normal rainfall patterns. The MY 2004/05 production estimate was increased due to surprisingly good weather conditions. Total corn consumption is forecast to increase to approximately 28.1 MMT in MY 2005/06 based largely on population growth (1.32 percent) and strong feed demand. Domestic feed demand for MY 2005/06 is forecast to increase 4.1 percent due to the dynamic performance of the livestock sector and the expectation of affordable prices for corn. The total consumption estimates for MY 2003/04 and 2004/05 have remained unchanged. The structure of the 2005 NAFTA import quota (3.462 MMT for the United States) will continue as in 2004 with direct allocations to importers and industries by the Secretariat of Economy. The GOM, however, again announced new changes in the import quota allocation policy. Total corn imports in MY 2005/06 are forecast to increase to 5.9 MMT, 500,000 MT higher than in MY 2004/05. This increase is based on strong demand from the livestock and starch industry as well the forecasted slight decline in domestic production. The estimated MY 2004/05 import estimate has been revised downward because of greater-than-previously-estimated domestic production. Both MY 2003/04 import and export estimates have been revised downward in accordance with final official data issued by the Secretariat of Economy (SE).

Sorghum

Mexican sorghum production for MY 2005/06 (Oct-Sept) is forecast to decrease slightly to approximately 6.25 MMT because of a probable switch in planting from sorghum to corn by farmers. Due to revised SAGARPA data, our estimate for sorghum production for MY 2004/05 was adjusted upward despite the fact that the harvested area was lower than previously estimated. SAGARPA and private industry surveys revealed that above average rainfall and nearly ideal harvesting conditions increased yields of the 2004 spring/summer crop cycle beyond what was expected. Imports for MY 2005/06 are forecast to increase by 500,000 MT to 4.0 MMT due to lower domestic production of sorghum and a modest increase in demand from the livestock sector. The MY 2004/05 import estimate remains unchanged. The sorghum import estimate for MY 2003/04 has been revised slightly upward based on final official data issued by SE.

Dry Beans

During MY 2005/06 (Oct-Sept) dry bean production is forecast to rebound slightly to 1.220 MMT due to expected normal weather conditions and improved yields. Production estimates for MY 2003/04 and MY 2004/05 have been lowered, which reflects new official information from SAGARPA and lower than-originally-estimated harvest area, respectively. Imports for MY 2005/06 are expected to remain unchanged at approximately 52,000 MT, due to the relatively large crop and large inventories. Import estimates for MY 2003/04 and 2004/05 have been revised upward, according to final official data and estimates from private sources.

Wheat

Total Mexican wheat production for MY 2005/06 (Jul-Jun) is forecast at 3.2 million metric tons due to heavy rainfall late last year and the early part of the current year allowing for

sufficient waterflow into the water reservoirs in the principle wheat producing state of Sonora and the return to normal rainfall patterns in the bread wheat producing states of the central plateau in Mexico. According to Mexico's Water Commission (CNA) the current levels of the dams in the state of Sonora have reached 65 percent of capacity thus allowing for sufficient crop irrigation in MY 2004/05 and MY 2005/06. Mexican wheat production for MY 2004/05 is revised upward from our previous estimate due to increased area planted and the increasing water supply for irrigation. Imports for MY 2005/06 are forecast at 3.6 MMT, 7.7 percent less than the previous year's estimate due to the expected increase in the production of bread wheats in central Mexico fueled by the return to normal rainfall patterns for MY 2004/05 and MY 2005/06. Imports for MY 2004/05 are expected to remain unchanged regardless of the increased production expected due to sufficient irrigation water in the state of Sonora. Bread wheat production in central Mexico is still insufficient to meet demand, therefore, imports will continue at a steady level for MY2004/05.

Rice

Mexico's rice output for MY 2005/06 is forecast to remain unchanged from the previous year's revised estimate of 200,000 MT (milled), because much of the rice producing lands in Veracruz and Campeche were left idle once again, due to excessively competitive imports. According to farmers, the federal and state government assistance programs have been insufficient to motivate farmers to plant rice on a larger scale. For MY 2004/05, rice production has been revised upward, due to increased area planted in the state of Sinaloa and higher yields from improved inputs. Although prices of imported rice have slightly increased, domestically produced rice is still not very competitive against imports despite help from federal and state government assistance programs. Imports in MY 2005/06 are forecast upward based on insufficient domestic production and an expected consumption increase based largely on the efforts of the U.S. Rice Federation's promotional activities.

SECTION II. STATISTICAL TABLES

PS&D CORN

PSD Table						
Country	Mexico					
Commodity	Corn				(1000 HA) (1000 MT)	
	2003 Revised		2004 Estimate		2005 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2003		10/2004		10/2005	
Area Harvested	7690	7690	7950	7785	0	7550
Beginning Stocks	3238	3238	4340	4250	3730	4240
Production	21800	21800	21000	22000	0	21600
TOTAL Mkt. Yr. Imports	5707	5613	5800	5400	0	5900
Oct-Sep Imports	5707	5613	5800	5400	0	5900
Oct-Sep Import U.S.	5707	5613	0	5400	0	5900
TOTAL SUPPLY	30745	30651	31140	31650	3730	31740
TOTAL Mkt. Yr. Exports	5	1	10	10	0	5
Oct-Sep Exports	5	1	10	10	0	5
Feed Dom. Consumption	11200	11200	12100	12100	0	12600
TOTAL Dom. Consumption	26400	26400	27400	27400	0	28100
Ending Stocks	4340	4250	3730	4240	0	3635
TOTAL DISTRIBUTION	30745	30651	31140	31650	0	31740

TRADE MATRIX

CORN H.S. 1005.90.03; 1005.90.04 & 1005.9099			Unit: Metric Tons		
Exports for MY 2003/04 (Oct-Sep) to:			Imports for MY 2003/04 (Oct-Sep) from:		
U.S.	1,290.428		U.S.	5,613.330.305	
GERMANY	2.900		PERU	11	
OTHER	1.106		OTHER	0	
TOTAL	1,294.434		TOTAL	5,613.330.316	

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, September 2004.

PS&D SORGHUM

PSD Table						
Country	México					
Commodity	Sorghum			(1000 HA) (1000 MT)		
	2003 Revised		2004 Estimate		2005 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2003		10/2004		10/2005	
Area Harvested	1900	1900	1900	1800	0	1750
Beginning Stocks	601	601	1127	1133	627	733
Production	7300	7300	6300	6400	0	6250
TOTAL Mkt. Yr. Imports	3026	3032	3500	3500	0	4000
Oct-Sep Imports	3026	3032	3500	3500	0	4000
Oct-Sep Import U.S.	3026	3032	0	3500	0	4000
TOTAL SUPPLY	10927	10933	10927	11033	627	10983
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	9700	9700	10200	10200	0	10400
TOTAL Dom. Consumption	9800	9800	10300	10300	0	10500
Ending Stocks	1127	1133	627	733	0	483
TOTAL DISTRIBUTION	10927	10933	10927	11033	0	10983

TRADE MATRIX

SORGHUM H.S. 1007.00.01 1007.00.02			Unit: Metric Tons		
Exports for MY 2003/04 (Oct-Sep) to:			Imports for MY 2003/04 (Oct-Sep) from:		
U.S.	1.085		U.S.	3,032.350.761	
HONDURAS	8.600				
OTHER	7.440		OTHER	0	
TOTAL	17.125		TOTAL	3,032.350.761	

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, September 2004.

PS&D BEANS

PSD Table						
Country	Mexico					
Commodity	Beans			(1000 HA)(1000 MT)		
	2003 Revised		2004 Estimate		2005 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2003		10/2004		10/2005	
Area Harvested	1780	1793	1780	1710	0	1740
Beginning Stocks	604	604	664	582	694	424
Production	1300	1281	1300	1200	0	1220
TOTAL Mkt. Yr. Imports	50	67	50	52	0	52
Jul-Jun Imports	50	67	50	52	0	52
Jul-Jun Import U.S.	48	65	48	49	0	49
TOTAL SUPPLY	1954	1952	2014	1834	694	1696
TOTAL Mkt. Yr. Exports	30	10	30	10	0	10
Jul-Jun Exports	30	10	30	10	0	10
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1260	1360	1290	1400	0	1425
Ending Stocks	664	582	694	424	0	261
TOTAL DISTRIBUTION	1954	1952	2014	1834	0	1696

TRADE MATRIX

DRY BEANS H.S. 0713.33.02; 0713.33.03 & 0713.33.99			Unit: Metric Tons		
Exports for MY 2003/04 (Jul-Jun) to:			Imports for MY 2003/04 (Jul-Jun) from:		
U.S.	9,842.731		U.S.	65,023.883	
VENEZUELA	40.370		CANADA	1,949.154	
OTHER	25.363		OTHER	354.403	
TOTAL	9,908.464		TOTAL	67,327.440	

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, September 2004.

PS&D WHEAT

PSD Table						
Country:	Mexico					
Commodity:	Wheat			(1000 HA) (1000 MT)		
	Revised 2003		Preliminary 2004		Forecast 2005	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	07/2003		07/2004		07/2005	
Area Harvested	620	620	500	550	0	650
Beginning Stocks	420	420	513	513	0	663
Production	2900	2900	2500	2650	0	3200
TOTAL Mkt. Yr. Imports	3644	3644	3900	3900	0	3600
Jul-Jun Imports	3644	3644	3900	3900	0	3600
Jul-Jun Import U.S.	2950	2950	3000	3000	0	3000
TOTAL SUPPLY	6964	6964	6913	7063	0	7463
TOTAL Mkt. Yr. Exports	451	451	300	300	0	500
Jul-Jun Exports	451	451	300	300	0	500
Feed Dom. Consumption	200	200	200	200	0	200
TOTAL Dom. Consumption	6000	6000	6100	6100	0	6300
Ending Stocks	513	513	513	663	0	663
TOTAL DISTRIBUTION	6964	6964	6913	7013	0	7463

Wheat Production Cost Budget State of Sonora (Pesos per Hectare)			
Item	Fall/Winter 03/04	Fall/Winter 04/05	% Change
Land Preparation	1,435.00	1,375.00	(4.18)
Planting	643.00	859.00	33.5
Fertilizing	1,792.00	2,228.00	24.3
Irrigation	1,317.00	2,725.00	106.9
Cultural Practices	160.00	160.00	0
Control of Disease	2,167.00	1,999.00	(7.75)
Harvest	1,215.00	963.00	(20.7)
Other Costs	822.00	537.00	(34.6)
Total	9,742.00	10,846.00	11.3
Average Yield	6.5	6.5	0
Price	1,800.00	1,875.00	4.2
Gross Income	11,700.00	12,187.00	4.2
Total Cost	9,742.00	10,846.00	11.3
Profit	1,958.00	1,341.00	(6.8)
Cost of Production/MT	1,498.77	1,668.61	11.3

Exchange Rate (March 7, 2005) US \$1.00 = 11.25 pesos

Wheat Production Cost Budget State of Baja California (Pesos per Hectare)			
Item	Fall/Winter 03/04	Fall/Winter 04/05	% Change
Land Preparation	1,920.00	1,259.87	(34.4)
Planting	727.00	672.86	(7.4)
Fertilizing	1,895.00	2,173.25	14.7
Irrigation	1,379.00	1,275.43	(7.5)
Cultural Practices	N/A	N/A	N/A
Control of Disease	1,088.00	1,128.00	3.7
Harvest	1,346.00	1,179.38	(12.4)
Other Costs	1,585.00	903.96	(42.9)
Total	9,940.00	8,592.75	(13.5)
Average Yield	6.5	6.5	0
Price	1,800.00	1,805.91	0.3
Gross Income	11,700.00	11,738.41	0.3
Total Cost	9,940.00	8,592.75	(13.5)
Profit	1,760.00	3,145.66	78.7
Cost of Production/MT	1,529.00	1,321.96	(13.5)

Exchange Rate (March 7, 2005) US \$1.00 = 11.25 pesos

PS&D RICE, MILLED

PSD Table						
Country:	México					
Commodity:	Rice, Milled			(1000 HA) (1000 MT)		
	Revised 2003		Preliminary 2004		Forecast 2005	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2003		10/2004		10/2005	
Area Harvested	58	58	60	66	0	66
Beginning Stocks	169	169	194	194	0	144
Milled Production	200	200	183	200	0	200
Rough Production	300	300	274	300	0	300
Milling Rate (.9999)	6667	6667	6667	6667	0	6667
TOTAL IMPORTS	550	550	525	550	0	610
Jan-Dec Imports	525	525	550	550	0	610
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	919	919	902	944	0	954
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	725	725	800	800	0	810
Ending Stocks	194	194	102	144	0	144
TOTAL DISTRIBUTION	919	919	902	944	0	954

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY & MARKETING**CORN****Production**

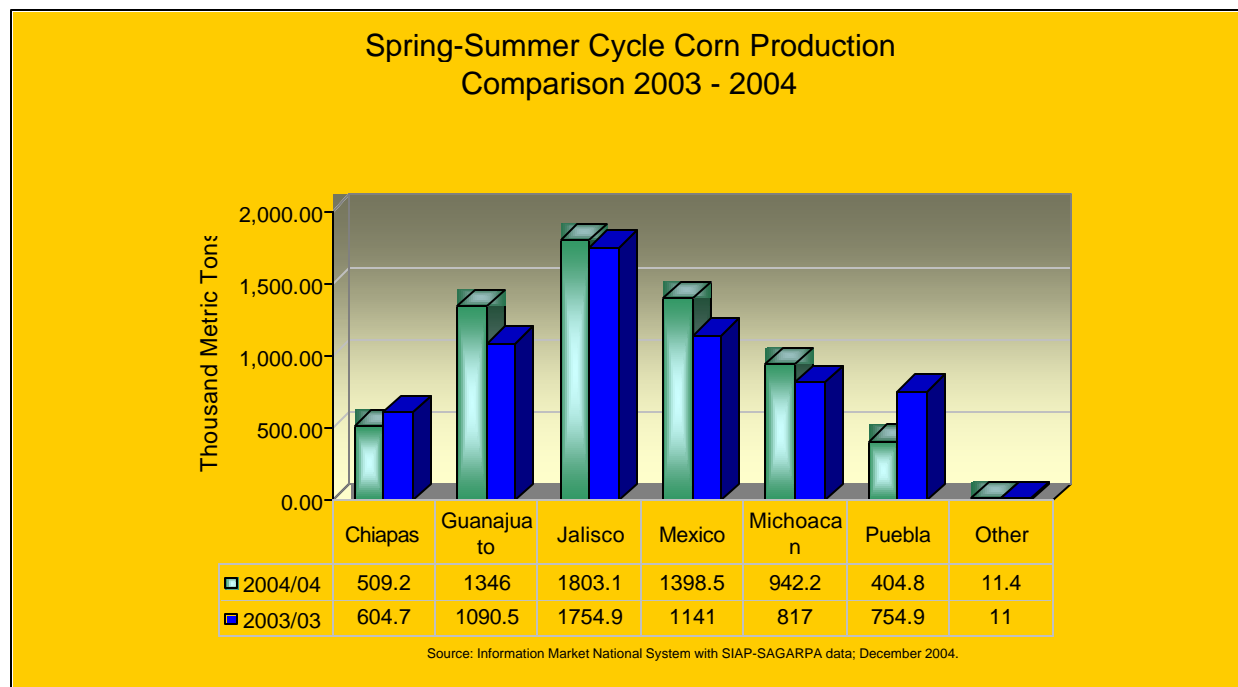
For marketing year 2005/06 (Oct-Sep), the initial forecast of total Mexican corn production is 21.6 MMT. The main reason for this slight decline is a decrease in harvested area. The MY 2004/05 production estimate was increased due to surprisingly good weather conditions. According to official sources, yields increased during the spring/summer 2004 crop cycle due to several factors, including timely and above average rains and excellent pest control programs during the planting season. Other contributing factors were improved seed varieties and higher sowing density.

According to official preliminary information, corn production in the main producing states increased by over 3.6 percent in the 2004 spring/summer crop compared with the same crop a year earlier. For example, in Jalisco, the major corn producing state for the spring/summer crop cycle, preliminary information indicates that 2004 spring/summer corn production reached 3.195 MMT, approximately 3 percent higher than the 2003 spring/summer crop, which was considered a record crop at that time. The excellent weather conditions and timely above-average rains, mainly from June to September, explain this increase. Official sources stated that in Jalisco the crop was planted 15 days before the traditional planting dates of June 15 to July 15, due to earlier-than-anticipated rainfall. Average yields for 2004's spring-summer crop in Jalisco have increased slightly, from 5.101 MT/ha, compared to 5.058 MT/ha a year ago; both of these years saw record yields. Approximately 95 percent of Jalisco's crop area is non-irrigated.

Corn production in Guanajuato also increased, due to above-normal precipitation providing abundant soil moisture in the spring/summer 2004 crop cycle. The larger output was also due to a slight increase in harvested area. Similar good weather conditions in Michoacan also increased yields for that state's corn crop. As result, Michoacan corn production is expected to reach 1.427 MMT in the 2004 spring/summer crop cycle, a figure slightly higher than that of the same production cycle last year. Among the main producing states, only Chiapas registered a decline of 7 percent in its 2004 spring/summer crop production compared with the same period a year ago, which is mainly attributed to a smaller planted area. In the case of Puebla, information as of January 31, 2005 shows that the estimated production for the spring/summer 2004 crop cycle would be similar to the same cycle a year ago. The table on the next page uses data as of December 2004.

In Mexico there are two corn production cycles each year: a spring/summer cycle and a fall/winter cycle. Between 90 to 95 percent of total annual Mexican corn production is grown in the spring/summer cycle, which is harvested from October through December. Since 90 percent of the corn produced in spring/summer cycle is rain fed, the rains starting in June are critical to good crop production. The five states of Jalisco, Mexico, Michoacan, Chiapas, and Puebla account for approximately 55 percent of the spring/summer corn production. The fall/winter crop is harvested in March through September. Forty percent of this is irrigated. The main producing states of this cycle are Sinaloa, Tamaulipas, and Veracruz.

Below is a graph illustrating the difference in the 2003 vs. 2004 spring/summer crop production in the main producing states, with data as of December 31, 2004:



The 2004/05 fall/winter corn crop production cycle is estimated at 3.412 MMT, down 4 percent from the previous year due to a decrease in area planted. However, crop conditions for corn planted in September and October have been near ideal, due to abundant water reservoir levels as well as beneficial precipitation received during January. Yield is forecast to remain at 9 MT per hectare for the 2004/05 fall/winter crop cycle, similar to that registered for the same cycle a year earlier. The central pacific coast state of Sinaloa is the main source of commercial white corn production in Mexico for the fall corn crop, representing approximately 64 percent of total fall/winter corn production. Harvest is expected to occur from May to June. The majority of the corn grown in the northwest part of Sinaloa is produced using very advanced technology, similar to that in the United States. In addition, large areas are under irrigation.

Yields continue to vary significantly among Mexico's various regions, depending in large part on the level of technology used. National average corn yields are forecast to remain practically unchanged at approximately 2.86 MT per hectare for MY 2005/06, assuming normal weather conditions. Due to good weather conditions, the general quality of the 2004 spring/summer corn crop is reported to be very good.

According to SAGARPA data, in CY 2004, the rate of increase in the cost of farm input prices was approximately 14 percent higher than the previous year. Total input costs for corn production in Jalisco are as follows:

Corn Production Cost Budget State of Jalisco (Pesos per Hectare)				
Item	2001 Spring/Summer Crop	2002 Spring/Summer Crop	2003 Spring/Summer Crop	2004 Spring/Summer Crop
TOTAL COST	4,967	5,142	6,823	7,767
Exchange Rate:				
February 26, 2002		US \$1.00 = 9.20 pesos		
March 7, 2003		US \$1.00 = 11.23 pesos		
February 24, 2004		US \$1.00 = 11.15 pesos		
February 10, 2005		US \$1.00 = 11.30 pesos		
Source: SAGARPA				

This cost of production includes item such as land preparation, planting, fertilizing, cultural practices, control of diseases and harvest, but it does not include indirect costs such as insurance, credit and technical assistance. Production costs vary significantly among Mexico's various regions, depending in large part on the level of technology used. Corn production costs in Jalisco could be considered to fall within the average cost for Mexico.

Policy

On March 9, 2005, SAGARPA announced it will pay producers of corn and other crops 963 pesos (roughly US \$ 86) per hectare during the 2005/04 spring/summer and the 2005/06 fall/winter planting seasons under its domestic support program, PROCAMPO. This payment is 3 percent greater than what SAGARPA paid during the same period in 2004/05. The announcement also indicates that farmers with producing areas of between one and five hectares will receive 1,160 pesos per hectare (approximately US \$103/ha).

As a part of the Target Price Program (see MX 3098 and MX 4033) on December 28, 2004, SAGARPA announced in Mexico's *Diario Oficial*, a support for the corn, sorghum and rice producers in several states for the 2004 spring/summer crop cycle. The breakdown of support per metric ton (called "Complementary Income Support") and the total volume to be supported by state are as follows:

Product	State	Total Volume Subsidized (MT)	Payment per Metric Ton (Pesos) *
White Corn	Aguascalientes	7,000	200
	Bajio (Guanajuato, Jalisco, Michoacan and Queretaro)	1,720,000	200
	Campeche	100,000	200
	Chiapas	350,000	300
	Chihuahua	150,000	70

Product	State	Total Volume Subsidized (MT)	Payment per Metric Ton (Pesos) *
	Coahuila	7,000	200
	Colima	3,000	200
	Durango	60,000	200
	Nayarit	40,000	200
	Puebla	55,000	100
	Quintana Roo	55,000	100
	Tlaxcala	9,000	100
	Veracruz	30,000	100
	Yucatan	10,000	200
Sub-Total White Corn		2,542,700	
Yellow Corn	Aguascalientes	1,500	150
	Chiapas	50,000	300
	Chihuahua	100,000	150
	Jalisco	20,000	200
	Zacatecas	8,500	200
Sub-Total Yellow Corn		180,000	
Rice	Campeche	64,000	400
	Colima	16,500	400
	Guerrero	500	400
	Jalisco	7,000	400
	Mexico	800	400
	Michoacan	28,000	400
	Morelos	15,000	400
	Nayarit	18,000	400
	Oaxaca	4,000	400
	Quintana Roo	1,050	400
	Tabasco	22,000	400
	Tamaulipas	3,000	400
	Veracruz	55,000	400
Sub-Total Rice		235,850	
Sorghum	Chiapas	16,000	70
	Coahuila	7,000	170
	La Huasteca (San Luis Potosi, Tamaulipas, Veracruz)	109,431	170
Sub-Total Sorghum		263,000	

* Exchange rate is approximately US \$1 = MXN \$11.25

The government has continued to encourage forward contract purchases between farmers and yellow corn buyers in an attempt to influence production patterns (see MX 2037 and MX

3028). For the 2004 spring/summer crop cycle, for example, SAGARPA officials, through ASERCA, agreed with Jalisco growers and private buyers to dedicate approximately 117,000 MT of yellow corn (planted on 14,500 hectares) to forward contract purchases; of these 117,000 MT, the starch industry purchased approximately 80,000 MT. ASERCA is SAGARPA's decentralized administrative body providing commercial support to farmers.

According to private sources, yellow corn production reached an all-time high in the 2004 spring/summer crop cycle (approximately 850,000 MT). High levels of production are expected to continue, due to good yellow corn prices in relation to white corn prices. The current oversupply of white corn has encouraged increased plantings of yellow corn.

Consumption

Total corn consumption is forecast to increase to approximately 28.1 MMT in MY 2005/06 based largely on population growth (1.32 percent) and strong feed demand. Historically, corn in Mexico has been essentially a food grain rather than a feed grain. It is a staple in the Mexican diet, with per capita consumption of approximately 66 kilograms per year in urban areas, mostly in the form of tortillas that are made from white corn. According to the Corn Industrial Chamber (CIC), the tortilla per capita consumption is 104 kilograms per year. The improvement in consumer purchasing power should fuel the increase of tortilla consumption. The consumption estimates for MY 2003/04 and 2004/05 have remained unchanged.

On January 27, 2005, a wide-ranging group of corn tortilla companies announced the creation of the Corn Tortilla Regulatory Council. The main objectives of this Council are to promote tortilla consumption, to honor the Mexican tortilla official quality standard, to propose to the Health Secretariat a sanitary regulatory program, and to develop a census of tortilla manufacturers. The CIC estimates, for example, that there are approximately 45,000 tortilla manufacturers in Mexico, but recognizes that this estimate cannot be corroborated without a census.

The feed industry continues to purchase yellow corn directly from producers in some areas because local corn is now somewhat cheaper than imported corn as a result of the marketing supports discussed above. The Mexican feed millers association expects feed consumption to increase between 3.5 and 4 percent in CY 2005 due to strong demand from the livestock sector. The poultry sector is the major consumer of feed corn and sorghum and is expected to grow 5 percent in CY 2005. The turkey meat sector is also anticipated to grow approximately 3 percent in CY 2005 (see MX 5010). Other important end-users of yellow corn include the swine and wet-milling industries. The swine sector is the second largest feed grain consumer, accounting for almost 4 MMT. According to industry sources, domestic pork meat production is expected to grow 2 percent in MY 2005 (see MX 5011). Similarly, the wet-milling industry output is anticipating growth of between 6 and 7 percent in CY 2005.

Moreover, within the context of Mexico's NAFTA TRQ, the starch, poultry, and livestock industries are again expected to import most of their corn because of their preference for yellow corn over white corn, which represents the majority of domestic corn production.

It should be noted that the feed consumption figures do not include the consumption of imported cracked corn by the livestock sector. As the corn TRQ allocation ("cupo") process has become more politically sensitive, it has sometimes resulted in more government delays in the allocation, and sometimes denial, of import permits. Consequently, some feed importers have been increasing their imports of cracked corn, an item that falls into a separate H.T.S. category and is neither subject to the NAFTA TRQ nor the politically-sensitive "cupo" allocation process. For MY 2005/06, however, feed importers estimate that the

imports of cracked corn should decrease, due to the more transparent and less discretionary allocation process for corn tariff quotas as well as the affordable prices of imported yellow corn (see Corn Trade section).

Trade

Total corn imports in MY 2005/06 are forecast to increase to 5.9 MMT, 500,000 MT higher than in MY 2004/05. This increase is based on strong demand from the livestock and starch industry as well the slight decline forecast in domestic production. Given the importance that timely rains play in Mexican agricultural production, wide fluctuations (i.e., 1-2 MMT) can be expected in the import volumes from year to year. The MY 2004/05 import estimate has been revised downward because of greater-than-previously-estimated domestic production. Both MY 2003/04 import and export estimates have been revised downward in accordance with final official data issued by the Secretariat of Economy (SE).

According to the SE, Mexico imported 2.2 MMT of cracked corn during the first eleven months of 2004, 17.2 percent lower than the same period a year earlier. Private sources foresee this trend continuing in CY 2005, as some big feed importers have complained about the bad quality of cracked corn and its sometimes unappealing high prices.

It should be noted that the MY 2005/06 import forecast assumes that the GOM will not enforce any regulation against transgenic corn. Controversy surrounding transgenic corn and biotechnology has risen and fallen in the last year, as anti-biotech groups have lobbied Congress unsuccessfully to include trade-restrictive measures in a national biosafety bill. On February 14, 2005 the Mexican Congress finally passed this national biosafety bill, which does not include any regulations against the trade nor does it require the labeling of transgenic corn. This bill does not become law until it is published in Mexico's *Diario Oficial*, which is expected to occur with the next few months. Mexican consumers appear to be unaware or disinterested in the biotechnology debate and its potential trade implications and tend to be more concerned about corn prices than about the processes by which corn is developed and grown.

According to SE, Mexico issued permits for approximately 7.0 MMT of corn in calendar year 2004 (see table below). However, it should be noted that the total SE allocation of these permits does not necessarily match with Mexico's final corn import data for CY 2004, because Mexican importers did not use all of these allocations. Preliminary official SE data states that Mexico imported 5.705 MMT of corn in CY 2004.

Corn import Quota Allocations (TRQ) for CY 2004	TRQ Allocation	OVER-TRQ Allocation	TOTAL 2004	% Of Total
Under NAFTA	1000 Metric Tons			
Corn Flour Millers (Human consumption)	347.475	0.00	347.475	4.92
Snack food	40.138	68.748	108.885	1.54
Breakfast Cereal (Human Consumption)	115.341	9.361	124.702	1.77
Starch Industry	1,322.054	388.487	1,710.541	24.24
Manufacturers Livestock (feeders, growers & feed millers)	1,534.783	3,231.611	4,766.395	67.53
Government	0.00	0.00	0.00	0.00
Total	3,359.791	3,698.207	7,057.998	100.00

Note: The minimum Tariff Rate Quota for U.S. corn under NAFTA was 3.359 MMT for 2004.
Source: Secretariat of Economy

The structure of the 2005 NAFTA TRQ (3.462 MMT for the United States) will continue as in 2004 with direct allocations to importers and industries by SE. The GOM, however, again announced new changes in the cupo allocation policy, as reflected in SE's December 1, 2004 announcement about the 2004-2007 U.S. import quota and the new administrative procedures for importers. The main change of the policy is the exclusion of the Mexican government (through its company Diconsa) and private tortilla makers from this allocation process, as was established in the National Agreement on Agriculture (MX3067). It should be noted that the amount allocated in CY 2003 for private tortilla makers and Diconsa was only 0.22 percent of the total corn TRQ (see MX4033). The rest of the administrative procedures continue to be practically the same as were announced originally by the GOM on December 31, 2003 (see MX 4002 and MX 4003). According to industry sources, the publication of these official rules has resulted in more transparency for industry and importers as well as allowing the latter to better plan their corn purchases.

Stocks

Mexico's ending stocks are forecast to decline to approximately 3.635 MMT in MY 2005, thereby maintaining a low stock-to-use ratio. The estimated MY 2004 ending stocks were revised upward, due to higher-than-previously estimated domestic production. The MY 2003 ending stock estimate was decreased, due to lower-than-previously-estimated imports.

Policy

Since NAFTA was implemented on January 1, 1994, the over-quota bound tariff on corn has been reduced from 206.4 percent to 54.5 percent and the TRQ has increased from 2.5 MT to 3.462 MMT for CY 2005. The United States has eliminated the 0.2 cents per kilogram tariff on imported corn from Mexico. At the same time, Mexico has also converted its import licensing system to a transitional tariff rate quota for the U.S. and Canada. The TRQ will remain in effect until 2008, with a 3-percent annual increase in quantity. Over the first six years of the agreement, an aggregated 24 percent of the tariff was eliminated. The remainder will be phased-out by 2008.

Despite the agreed upon NAFTA bound tariffs for white and yellow corn, the Mexican

Government had customarily issued additional import permits beyond the amount required by the free trade agreement. Usually, these additional imports have been subject to minor tariffs (roughly 1-2 percent on yellow corn and 2-3 percent on white) rather than the NAFTA bound tariffs. In the last two years, however, the Mexican Lower House decided that over-quota imports of white corn would be subject to the import tariffs specified by NAFTA (72.6 percent in 2004 and 54.5 percent in 2005). Although both correspond to NAFTA bound tariffs, this decision is a marked departure from past practice, as it means a significant difference between the current bound and the previous applied tariffs. Nevertheless, this tariff is NAFTA consistent and will apply to white corn, even in the case of a shortage (see MX4003 and MX4033).

In the case of yellow corn, which comprises approximately 90 percent of all U.S. corn imports into Mexico, the Lower House decided to leave the determination of the over quota amount to the Ministries of Economy and Agriculture – two ministries which have traditionally supported very low applied tariffs for corn and have usually administered the import permit allocation process based on national supply conditions and the marketing of domestic corn (see MX 4003 and MX 4033). As mandated by the Lower House in the 2005 Budget Law, the GOM still has to announce what the out-of-quota import tariff for yellow corn in CY 2005 will be. Industry sources estimated, however, that it would be 1 percent, as was imposed in CY 2004.

The United States will remain the main supplier of corn to Mexico for the foreseeable future due to NAFTA. As credit continues to be tight in Mexico, credit guarantee programs such as GSM-102 will remain useful tools to promote consumption of U.S. corn in Mexico. With the full liberalization of U.S.-Mexico corn trade on January 2008, U.S. corn exports should increase even further, as corn demand in Mexico is expected to grow faster than domestic corn production.

SORGHUM

Production

Mexican sorghum production for MY 2005/06 (Oct-Sept) is forecast to decrease slightly to approximately 6.25 MMT because of a probable switch in planting from sorghum to corn by farmers. Traders and buyers indicate that the price ratio between corn and sorghum is expected to continue to be more favorable for corn during MY 2005/06, which should encourage continued high levels of corn production and decreased sorghum planting areas and production. Industry sources indicate that the price of sorghum must be about 85 percent of the price of corn for the poultry industry – the primary industrial consumer of corn and sorghum – to switch to sorghum. Corn is generally preferred over sorghum for poultry feed because of its better nutritional value.

Due to revised SAGARPA data, our estimate for sorghum production for MY 2004/05 was adjusted upward despite the fact that the harvested area was lower than previously estimated. According to private sources, farmers decided not to plant sorghum in some areas of the Bajio region (Guanajuato, Michoacan and Jalisco) – where the bulk of the spring season is produced – for the 2004 spring/summer crop cycle because of its unattractive price. Instead, sorghum farmers planted white corn in this region. Despite the lower harvested area, SAGARPA and private industry surveys revealed that above average rainfall and nearly ideal harvesting conditions increased the yields of the 2004 spring/summer crop cycle beyond what was expected. Sorghum production is spread throughout the country, with the largest producing states in MY 2004/05 being Guanajuato, Tamaulipas and Michoacan. Crop quality is reportedly good. Also, for the 2004/05 fall/winter crop cycle, a reduction in planted area of approximately 5 percent, compared to the previous year, is

expected. However, water availability is reported to be adequate in Tamaulipas, the main producing state of this crop cycle, which could partially compensate for the reduction in area planted through higher yields. For MY 2004/05, we are estimating that the Bajio region will account for approximately 38 percent of total production, while 29 percent will be produced in Tamaulipas.

Approximately 11 percent of the fall/winter crop cycle is irrigated while nearly 24 percent of the spring/summer crop cycle is irrigated. Traditionally, feed manufacturers have readily purchased the Bajio sorghum crop because of its quality and proximity to demand centers. At the same time, because of transportation and quality issues, feed millers have continued to be less aggressive in purchasing the Tamaulipas fall/winter crop. Traditionally this has caused some problems with the marketing of this crop.

The overall yield for the MY 2004/05 sorghum crop in Mexico is expected to reach approximately 3.591 metric tons per hectare. Yields are forecast to be similar for MY 2005/06, assuming normal weather conditions.

According to official data, the cost of farm inputs for CY 2004 increased approximately 20 percent compared to the previous year. Total input costs for sorghum production in the state of Jalisco are as follow:

Sorghum Production Cost Budget State of Jalisco (Pesos per Hectare)			
Item	2002 Spring/Summer Crop	2003 Spring/Summer Crop	2004 Spring/Summer Crop
Total Cost	5,698	6,651	7,995
Exchange Rate:			
March 7, 2003		US \$1.00 = 11.23 pesos	
February 24, 2004		US \$1.00 = 11.15 pesos	
February 10, 2005		US \$1.00 = 11.30 pesos	
Source: SAGARPA			

This cost of production includes item such as land preparation, planting, fertilizing, cultural practices, control of diseases and harvest. But it does not include indirect costs such as insurance, credit and technical assistance.

Policy

On March 9, 2005, SAGARPA announced it will pay producers of corn and other crops 963 pesos (roughly US \$ 86) per hectare during the 2005/04 spring/summer and the 2005/06 fall/winter planting seasons under its domestic support program, PROCAMPO. This payment is 3 percent greater than what SAGARPA paid during the same period in 2004/05. The announcement also indicates that farmers with producing areas of between one and five hectares will receive 1,160 pesos per hectare (approximately US \$103/ha).

On January 27, 2005, SAGARPA announced in the "Diario Oficial" (Mexico's Federal Register) a support for the storage cost ("pignoracion") of sorghum in Michoacan and Guanajuato. The supports will be applied only for the 2004 spring/summer crop (harvest in 2004/05 fall/winter). The plan is to provide monthly payments per ton during five months: November 2004 (46.84 pesos/MT); December 2004 (78.69 pesos/MT); January 2005 (114.53 pesos/MT); February 2005 (156.63 pesos/MT) and March 2005 (192.47 pesos/MT).

The objective of this program is to allow sorghum growers to store part of this crop in order to obtain better prices for their grain some months after the harvest has concluded. The supports are managed by ASERCA. The breakdown, by state, of the total volume to be supported and estimated production for the 2004 spring/summer crop is as follows:

State	Total Volume Subsidied (1000 MT)	Current Production Estimate* (1000 MT)
Guanajuato	125.00	1,616.66
Michoacan	25.00	562.132

* 2004 spring/summer crop cycle.

Consumption

MY 2005/06 sorghum consumption is forecast at 10.4 MMT, a 2-percent increase above last year, due to increased demand from the livestock sector. This increase, however, is lower than the expected growth in feed consumption in 2005 (between 3.5 and 4.0 percent). Industry sources state that in the last few months the price relationship between corn and sorghum has become somewhat more favorable for corn, which has made it a key factor in the poultry sector's increased consumption of corn over sorghum in MY 2004/05. Industry sources estimate that this trend could continue in MY 2005/06. Poultry producers tend to prefer yellow corn to sorghum because of its better nutritional value and the color it gives to the birds' skins. This sector is the main consumer of sorghum in Mexico. Sorghum consumption estimates for MY 2003/04 and 2004/05 have remained unchanged.

Trade

Imports for MY 2005/06 are forecast to increase by 500,000 MT to 4.0 MMT, due to lower domestic production of sorghum and a modest increase in demand from the livestock sector. The MY 2004/05 import estimate remains unchanged. The sorghum import estimate for MY 2003/04 has been revised slightly upward based on final official data issued by SE. According to industry sources, private feed millers continue to keep approximately 6 weeks of feed in stock.

Stocks

Ending stocks for MY 2005/06 are forecast to decline by nearly 250,000 MT, due to the expected decrease in domestic production. The estimate of MY 2003/04 and MY 2004/05 ending stocks have been raised based on slightly higher imports and production, respectively, than previously estimated.

BEANS, DRY EDIBLE

Production

MY 2005/06 dry edible bean production is forecast at 1.220 MT, due to expectations of normal weather conditions combined with a slight increase in planted area. The estimate of Mexico's dry edible bean production for MY 2004/05 (Oct-Sep) has been reduced to 1.2 MMT because of a lower-than-originally-estimated area harvested. Most of the decrease in harvested area is in the main producing state of Zacatecas where harvested area is now reported at 620,000 ha. This represents a 7.5-percent reduction from the previous year and is mainly attributable to an incentive program to switch production from dry bean crop to

other grains, such as sorghum and oats (see Dry Beans Production Policy). Despite the lower harvested area, the summer crops are reportedly in very good condition in the areas of Zacatecas and Durango. These states produce approximately 45 percent of Mexico's total annual dry bean crop.

Sources indicate that in spite of the excessive rainfall in September, which caused some crop problems, the optimum planting dates and the very good growing conditions made the 2004 spring/summer bean crop an average one in terms of volume of production. This crop is expected to account for approximately 79 percent of total MY 2004/05 production, with the remainder coming from the fall/winter crop.

For MY 2003/04 the production and the harvested area estimates were revised downward and upward respectively, to reflect the final figures of the Mexican Government (issued by SAGARPA). FAS/Mexico uses official Mexican government statistics for historical purposes.

Dry beans are generally only produced in the north of Mexico. Zacatecas continues to be the main producing state for dry beans, accounting for approximately 39 percent of domestic production. In this state production is expected to reach approximately 366,000 MT, of which 60 percent are black beans, 32 percent are "Flor de Mayo" and "Flor de Junio" (clear varieties) and 8 percent are pintos. According to official sources, due to excessive rainfall in September and high temperatures, approximately 55,000 ha in the Sombrerete region registered some diseases such as rust and anthracnose. In order to prevent these disease problems in the next spring/summer crop cycle, SAGARPA is designing a program to improve farming practices such as using certified seed, herbicides, and fungicides. The average yield in Zacatecas for the 2004 spring/summer crop was approximately 0.635 MT per hectare, or 7 percent lower than the prior year, due to these disease problems.

Growers were pleased with the 2004 spring/summer crop in Durango, the second most important dry bean state. Crop conditions during the growing season were considered good and the area received adequate rain. Losses to grasshoppers and diseases were virtually none, with only 1,000 hectares lost out of a total 230,840 hectares planted. Production is expected to reach 167,300 MT, with approximately 65 percent of the crop being pinto varieties, 30 percent black beans, and 8 percent clear varieties. The yield expected is 0.733 MT/ha, which is slightly lower than the previous year.

According to preliminary official information, production of dry beans in Chihuahua declined by over 30 percent in the 2004 spring/summer crop cycle (34,876 MT) compared with the initial estimate. The majority of the decline is attributable to the 29,718 ha damaged by the dry weather in the dry bean production areas, which reduced the yields. Approximately 85 percent of Chihuahua crop area is non-irrigated. Pinto is the predominant variety in Chihuahua. According to industry sources, the farm incentive programs continue to encourage growers to move acreage to feed grains. High beef prices are also an incentive factor in farmers switching from beans to feed grains.

For the 2004/05 fall-winter crop cycle, the state of Nayarit reports a dry bean planted area of 54,189 ha, out of which approximately 35 percent are irrigated and the rest are rain fed. The expected production of this crop cycle is 52,905 MT, 70 percent of which are black bean varieties. The rest of the production will be comprised of Peruanos and other clear and pink varieties.

In Sinaloa, SAGARPA reports a total bean planted surface of 71,895 ha, of which 90 percent is irrigated and the remainder is not. The expected production for the 2004/05 fall-winter crop is 100,000 MT, of which less than 10 percent is comprised of black bean varieties, with Azufrados, Peruanos and Mayocobas varieties accounting for the rest. According to SAGARPA

officials, production obtained as of February 11, 2005 was 18,294 MT; the average yield was 2.0 MT/ha. The planting of dry beans for the fall/winter crop cycle (harvested in the spring/summer) peaks during November, when 45 percent of the total dry bean cultivation acreage is planted.

Weather continues to be the predominant production factor given that over 88 percent of Mexico's bean area is non-irrigated. The overall yield for the MY 2004/05 dry bean crop in Mexico is expected to reach about 0.701 MT/ha – practically unchanged from the average yield obtained in MY 2003/04. For the 2004 spring/summer cycle crop, the quality of dry beans was good, with many big and mature beans.

Production Policy

PROCAMPO payments for the spring/summer 2004 and the fall/winter 2005/06 crop cycles will be 963 pesos/ha (U.S. \$86/ha). Dry bean growers with producing areas of between one and five hectares will receive 1,160 pesos per hectare, equivalent to US\$ 103/ha (see Corn Production Policy).

The Mexican Government has continued with the program to support dry bean farm-gate prices established in CY 2003 in Zacatecas and Durango (see MX 3143). The program consists of paying 5.00 pesos per kilo for range field quality No. 1 and 5.5 pesos per kilo for range quality No. 2. The dry beans have to comply with these quality standards in order to receive these prices. The dry beans are delivered to private warehouses, and the cost of the product is paid in full to the producer. SAGARPA officials stated that during the 2003 spring/summer crop cycle 121,000 MT were acquired in Zacatecas and Durango. As of January 26, 2004, approximately 100,000 MT of dry beans were acquired through this program in Zacatecas, of which 78 percent were black and 12 percent were clear varieties.

SAGARPA officials estimate the program will apply to approximately 150,000 MT of beans from the spring/summer 2004 crop in Durango and Zacatecas -- or about 16 percent of the total crop in these states and about 13 percent of Mexico's total bean crop. It should be noted that bean producers do not benefit from the reference price system used to support corn and sorghum producers (see MX 3028).

In an attempt to influence dry bean production patterns for CY 2004, SAGARPA implemented a program providing incentives for farmers to switch production from dry beans to crops that could be more profitable (see MX 2037). The program, called "Direct Supports for the Conversion of Dry Beans to Feed Grains and Grass," applies to the states of Zacatecas, Durango and San Luis Potosi for the 2004 spring/summer crop cycle. Its main objective is to encourage less productive bean growers to switch to alternative crops, such as sorghum, corn, oat and grass. MY 2005/06 planted area has increased slightly – about 2 percent – from last year, due to the offsetting factors of unproductive dry bean farmers converting to other crops and more productive farmers slightly increasing their planted area. The breakdown of support per hectare and the total area to be supported by state are as follows:

State	Product	Estimated Area (Hectares)	Fix Support (Pesos/Ha.)*
Zacatecas	Oat	90,000	650
	Feed Corn	28,300	400
	Grass	5,000	1,200
	Subtotal	123,300	
Durango	Oat	45,000	650
	Feed Corn	12,000	400
	Sorghum	5,000	1,200
	Subtotal	62,000	
San Luis Potosi	Oat	20,000	650
	Subtotal	20,000	
TOTAL		205,300	-

* Exchange rate is approximately US \$1 = MXN \$11.25

On February 14, 2005 SAGARPA announced in the "Diario Oficial" (Mexico's Federal Register) an agreement it signed with the Zacatecas state government. The purpose of this agreement is to establish storage centers for cleaning, grading, and packing of bean crops. The state government will provide 18.6 million pesos (U.S. \$1.7 million) and SAGARPA will provide a one-time only payment of 43.4 million pesos (U.S. \$3.5 million). ASERCA will manage these storage centers. According to SAGARPA sources, the goal is to increase the competitiveness of those bean growers who have the potential to compete against imported beans. The project is to establish two storage centers, one in Calera County and another in Sombrerete County. Each center will have a storage capacity of 120,000 MT.

Consumption

Consumption for MY 2005/06 is forecast to increase slightly to around 1.425 MMT, an increase of approximately 1.8 percent, due to population growth and more affordable prices. Per capita dry bean consumption in Mexico continues to be one of the highest in the world, at approximately 14/kg per year.

The MY 2003/04 and MY 2004/05 consumption estimates were revised upward to reflect final and preliminary government data, respectively. According to SAGARPA sources, they along with members of the Dry Bean Committee (see MX3087) agreed to upwardly adjust the consumption estimates of the last few years based on information of the Income-Expenditure Census. The National Institute of Statistics, Geography and Computer Data (INEGI) compiles this census, which includes information on food expenses.

Trade

The MY 2005/06 dry bean import is forecast to remain unchanged from the previous year's revised estimate, due to large carryover stock. Carryover stocks are expected to continue to be high due to the good Mexican crop of MY 2004/05. Import estimates for MY 2003/04 and MY 2004/05 have been revised upward based on final SE's official data and trade sources, respectively.

Stocks

MY 2005/06 ending stocks are forecast to decrease to 261,000 MT, due to increased consumption. Ending stock estimates for MY 2003/04 and MY 2004/05 were decreased to 582,000 MT and 424,000, respectively, because of higher-than-previously estimated consumption.

Policy

On January 1, 1994, under the NAFTA, Mexico converted its import-licensing regime for the United States and Canada to a transitional tariff-rate quota. The TRQ grows at a 3 percent annually compounded rate over the 15-year transition period starting in 1994 and ending in 2008. For the United States in 2005, duty-free access to the Mexican market is set at 69,212 MT. The over-quota bound/applied tariff is 35.2 percent for 2005. This is down from the 2004 NAFTA bound/applied tariff of 46.9 percent. Over the first 6 years of the agreement, an aggregate 24 percent of this over-quota tariff was eliminated. The remainder of the tariff will be phased out over the rest of the transition period.

During 2005, Canada has duty-free access for 2,076 MT of dry beans. The structure of the over-quota tariff phase-out and growth in the quota amount is the same as for the United States. The United States eliminated its tariff on imported dry beans from Mexico as of January 1, 1994. The immediate phase-out of the U.S. tariff on dry bean imports has had little impact due to the fact that the volume of Mexican dry bean imports into the United States is relatively low.

According to the 2005 Budget Law (published in the Mexican Federal Register on December 24, 2004), should additional beans above the quota need to be imported, this additional amount cannot be higher than 10 percent of the total 2005 NAFTA TRQ. Also, the Budget Law states that the out-of-quota dry bean allocation will be carried out through public auctions, with a minimum price of 11.72% over the actual price at the point of origin. It should be noted, however, that the paperwork and time required to participate in an auction is significant and does not guarantee success at an auction. Consequently, some industry sources estimate that importers would likely prefer paying the 35.2% over-quota tariff for guaranteed supplies of imported beans. On December 29, 2004, the Secretariat of Economy published TRQs and information on Mexico's administration of bids for the importation of dry beans during the 2005-2007 period (see MX4140).

WHEAT

Production

Total Mexican wheat production for MY 2005/06 (July/June) is forecast at 3.2 million metric tons due to heavy rainfall in November and December 2004 and January of the current year that allowed the regions' reservoirs to accumulate rainwater at an unprecedented rate in the principle durum wheat producing state of Sonora. According to Mexico's Water Commission (CNA), the current water levels of the water reservoirs in the state of Sonora have reached 65 percent of their capacity, thus allowing for adequate irrigation for both the 2004/05 and 2005/06 crops. Similarly, the return to normal rainfall patterns in the central plateau of Mexico is expected to improve production of bread wheats in this region. Therefore, Mexico's wheat output for MY 2004/05 is revised upward from our previous estimate due to increased area planted and the increasing water supply for irrigation.

For MY 2004/05, wheat farmers of Sonora and Baja California, with the assistance of the federal funds, are expecting to have a reference or negotiated price similar to the price for

MY 2003/04 crops of about \$1,870 pesos (USD\$166) per metric ton, depending on the variety and quality of the wheat.

The major wheat producing areas are in Sonora, Sinaloa, Guanajuato and Baja California. These four states account for 65-70 percent of the spring-harvested wheat, producing mostly hard red winter wheat, but also soft red winter, white and durum wheats. The wheat crop harvested in the fall months in the central plateau states accounts for 30 to 35 percent of Mexico's total wheat production. This area produces mostly bread wheats.

Overall harvested area for wheat in MY 2005/06 is forecast to increase by 18.2 percent to around 650,000 hectares. This reflects the return to wheat production of those lands that were left idle due to a lack of water for irrigation of crops in Sonora and the insufficient water availability in the central plateau states due to the drought that appears to now be over.

Consumption

With expected economic expansion, population growth, and on-going retail-level price controls for basic bread ("bolillo") and the growing preference among consumers – especially young consumers -- for wheat baked goods, Mexico's consumption for MY 2005/06 is forecast upward from the previous year's estimate to around 6.3 MMT.

Trade

Total wheat and wheat flour imports for MY 2005/06 are forecast at 3.6 MMT, 7.7 percent less than the previous year's estimate due to the expected increase in production of bread wheats in the central plateau states due to the return to normal rainfall patterns in this region for MY 2005/06.

As usual, price competitiveness during MY 2004/2005 will in large part decide import source. For the past several years, Mexico imported wheat from only the U.S. and Canada. This, again, will likely be the case in MY 2005/06. The availability of GSM-102 credit guarantees continues to be an important incentive for Mexican millers to purchase U.S. wheat, even though Canada normally offers similar terms.

In MY 2005/06, exports of durum wheat are forecast to increase to 500,000 MT, due to expected higher production.

Stocks

My 2005/06 ending stocks are forecast at 663,000 MT, due to industry's need to build and maintain adequate stocks because of the irregular growth in the production of bread quality wheat. Much for the same reason as above and fueled by the production increase, ending stocks in MY 2004/05, are revised upward to 663,000 MT.

Marketing

The U.S. Agricultural Trade Office (ATO) in Mexico City can assist in market development and promotion of U.S. wheat in the Mexican market through the services of U.S. Wheat Associates, Inc. They can provide information on all aspects of U.S. wheat trading and use, including sourcing, purchasing and feeding. Technical help in the areas of end-use, processing and technology, as well as education on the United States as a supplier, are part of the U.S. Wheat Associate's programs.

In order to further stimulate wheat consumption in Mexico, market development activities should focus on consumer use of wheat products (e.g., bread, cookies, etc.). Also, in order to avoid trade disruptions, it is important to provide information to government personnel in charge of regulatory functions so that grades, standards, and phytosanitary regulations do not impede wheat trade between the two countries.

RICE

Production

Mexico's rice output for MY 2005/06 is forecast to remain unchanged from the previous year's revised estimate of 200,000 MT (milled basis), because much of the rice producing lands in Veracruz and Campeche were left idle, once again, as in the previous year, due to excessively competitive imports. Additionally, according to Mexico's rice producers association, the federal and state government assistance programs have been insufficient to motivate producers to plant rice on a larger scale. It is believed that many of the owners of these idle lands have gone to the United States in search of employment and better opportunities. For MY 2004/05, rice production has been revised upward, due to increased area planted in the state of Sinaloa and higher yields from improved inputs. Although prices of imported rice have slightly increased, domestically produced rice is still not very competitive against imports despite help from federal and state government assistance programs. Rice output for MY 2003/04 is revised downward reflecting official data and the drop in area harvested.

For MY 2005/06, area harvested is forecast to remain unchanged from the previous year's revised estimate, due to the continued expectation of competitively priced imports from the United States and insufficient government support to Mexican producers. MY 2004/05 area harvested is revised upward to 66,000 hectares, an increase of 10 percent from the previous estimate, due to the expected increase in price of imported rice and to grower expectations that government assistance programs would be more generous.

Consumption

In MY 2005/06, rice consumption is forecast at 825,000 mt, an increase of 3.1 percent over the previous year's estimate due to continuous marketing efforts of the U.S. Rice Federation, and U.S. Rice Producers Association, and because of affordable prices. Rice is a food staple for the majority of the lower income population in Mexico.

Trade

Imports in MY 2005/06 are forecast upward based on insufficient domestic production and an expected consumption increase based largely on the efforts of the U.S. Rice Federation's promotional activities. MY 2004/05 rice imports are revised upward to 550,000 MT, an increase of 0.4 percent over the previous estimate, primarily as a result of the need to maintain beginning and ending stocks at an adequate level.

Stocks

Ending stocks for MY 2005/06, are expected to remain unchanged from the previous year's revised estimate due to the expected increase in consumption. Due to insufficient domestic production to meet current demand, mills will continue to look to imports for supplies, especially during the traditionally short supply months from April to July, which are the gap months between Mexico's two rice crops. Ending stocks for MY 2004/05 are revised upward

to 144,000 MT, an increase of 41.1 percent over the previous estimate due to the estimated increase in production and stock building requirements.

Policy

Currently the World Trade Organization's (WTO) dispute settlement panel is reviewing the U.S. challenge to Mexico's antidumping duties imposed on U.S. long-grain white rice in June 2002.

In the WTO panel request, the United States identified numerous apparent violations of Mexico's obligations under the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (Antidumping Agreement), the Agreement on Subsidies and Countervailing Measures (SCM Agreement), and the General Agreement on Tariffs and Trade 1994 (GATT 1994). These violations relate to various procedures and methodologies Mexican authorities used in the rice investigation. In particular, the WTO proceeding is addressing issues such as Mexico's choice of data used in the investigation, its methodology for determining whether the Mexican industries were injured by reason of dumped imports, its failure to terminate the investigation when it found that no dumping or injury occurred, its calculations of the dumping duty rates applied to U.S. exports to Mexico, and its non-transparent determinations. The WTO is expected to put out its final report on this case by late spring 2005.

Pending the dispute settlement panel's determination, Mexico continues to apply antidumping duties on U.S. white rice imports as follows:

- A. For imports from Farmers Rice Milling Company and Riceland Foods, Inc.: 0 (zero) percent.
- B. For the imports from The Rice Company: 3.93 percent.
- C. All other companies from the United States exporting white rice to Mexico: 10.18 percent

Marketing

Marketing promotion programs for U.S. rice through the U.S.A Rice Federation/Mexico City Office and US Rice Producers Association, continue opening niche markets for U.S. rice in the supermarket, hotel and restaurant trade. Prospects exist in the short- and medium-terms for increased rice sales fueled by the increase in population, the attractiveness of adding additional proteins to the diet at affordable prices, complementing egg and meat protein consumption. The rapid growth in supermarket chain stores, fast food restaurants and the tourist sector all present opportunities for market growth.

Marketing activities should continue to center upon branded promotions and other avenues for creating niche markets for U.S. specialty and quality rice. In addition, given the overall low level of rice consumption, providing nutritional information on rice could help encourage more healthy diets and increase rice consumption in lower income areas of the country.